Office of the Inspector General

Kenneth S. Apfel Commissioner of Social Security

Inspector General

Accounting for Social Security Benefits by the County of Los Angeles, California

The attached final report presents the results of our audit of the adequacy of the County of Los Angeles' procedures and controls over Social Security benefits received and disbursements made on behalf of children in its care (A-09-96-51002). The objective was to determine the adequacy of the controls and whether interest earned on the children's funds was being paid to the children. We also determined the extent of the County's compliance with laws and regulations regarding dedicated accounts for large payments of retroactive Supplemental Security Income benefits and retroactive reimbursement for foster care costs.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide them within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Pamela J. Gardiner, Assistant Inspector General for Audit, at (410) 9 65-9 700.

David C. Williams

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Accounting for Social Security Benefits by the County of Los Angeles, California

This final report is one of three issued in response to a request from the Social Security Administration (SSA) that the Office of the Inspector General (OIG) review operations of the Division of Children and Family Services (DCFS), County of Los Angeles, California. One report addressed whether DCFS had adequate procedures and received sufficient instructions from SSA to carry out its responsibilities as representative payee (Rep Payee). Another report wrifted that DCFS had identified and reported to SSA those children in its care who were no longer entitled to Social Security. This report addresses the adequacy of DCFS procedures and controls over benefits received and disbursements made on behalf of children in its care.

DCFS had implemented adequate procedures and controls to account for receipts and disbursements of Social Security benefits; however, changes were needed to comply with laws and regulations. First, the County invested and earned interest on children's funds with outcrediting the interest to the children. The amount of interest earned that should have been credited to the children was about \$72,000 for the 12-month period September 1996 through August 1997. Second, DCFS received reimbursement retroactively for foster care costs with outcomplying with the requirement as Rep Payee to obtain prior authorization from SSA. Finally, DCFS had notes tablished dedicated accounts for certain retroactive payments.

¹ "Review of Los Angeles County's Performance as the Representative Payee for Title II and Title XVI Children in Foster Care" (A-09-9 6-62003) issued on July 9, 1997.

² "Audit of the County of Los Angeles' Review to Identify and Report to SSA Past Deficiencies for Title II and Title XVI Children in Foster Care" (A-09-9 6-61002) issued on August 11, 1997.

BACKGROUND

In 1995, DCFS performed an internal review and reported problems with its procedures for identifying and reporting events that would affect children's Social Security benefits. Subsequently, the Deputy Commissioner of the former Office for Programs, Policy, Evaluation and Communications, in a memorandum dated April 26, 1996, requested that OIG assess the County's reliability to act as a Rep Payee for child beneficiaries. This report addresses the adequacy of the accounting procedures that affect the County's ability to act as a Rep Payee.

The County of Los Angeles, with over 9 million residents, has a larger population than 42 States and an annual budget of more than \$12 billion. DCFS is responsible for establishing and managing a system of services to ensure that children are safe from abuse, neglect, and exploitation. One service is to provide temporary housing through its Foster Care program for children whose families are unable to provide a safe home environment. Through the program, children are placed with individual foster parents or in public or private institutions. DCFS reimburses the foster parents and the institutions for the costs of the children's care. DCFS provides foster care services to approximately 30,000 children, about 1,200 of whom receive Social Security benefits.

Children in foster care may receive Social Security benefits under two programs. Old-Age, Survivors and Disability Insurance (OASDI) payments are available to children if a parent is retired, deceased, or disabled. Supplemental Security Income (SSI) is available to children who are blind or disabled and have limited family income and resources. In some cases the children are entitled under both programs simultaneously.

DCFS serves as the Rep Payee for children in its care and is responsible for using the benefits in the children's best interests. Thus, Social Security benefits are used to pay for foster care provided to the children. As Rep Payee, DCFS is also responsible for conserving or investing any unspent funds on behalf of the children (20 Code of Federal Regulations [CFR] section 404.2045(a) and 20 CFR section 416.645(a)). Any interest earned on these benefits belongs to the children (Program Operations Manual System [POMS], Part 02, GN 00603.010A.1).

Social Security benefits are received by the County via direct deposit to a commercial bank account which is used only for SSA benefit payments. DCFS downloads information electronically from the bank including Social Security number, type of benefit (OASDI or SSI), and amount of payment. DCFS maintains individual accounts in an automated subsidiary ledger for each of the children. The ledger is titled "Child Welfare Trust Ledger System" (CWT). All benefits and expenditures made on behalf of each child are recorded in these accounts. The funds are automatically transferred into the County's General Fund for investment

purposes. The Department of the Auditor Controller, a department separate and distinct from DCFS, records receipts and disbursements of funds for the General Fund. The Department of the Treasurer and Tax Collector, another separate and distinct department, has custody of the funds and makes all disbursements.

The children's funds are disbursed for foster care payments and to pay for special needs of the children. Foster care providers submit vouchers to DCFS indicating that services were provided to the children. The vouchers are sent to the Department of the Treasurer and Tax Collector where they are used as the basis formaking the foster care payments. After the foster care payments are made, a computer tape containing data about the payments is provided to DCFS. The tape is used to record the foster care payments to the children's accounts.

The case workers initiate requests for payments for special needs of the children. The requests are processed through the Finance Division of DCFS which determines the availability of funds before approving the requests. If the requests are approved, the payment is recorded to the children's accounts and the requests are sent to the Department of the Treasurer and Tax Collector for payment.

Periodically, DCFS receives payments for retroactive SSI benefits. Typically, the processing of SSI applications requires several months. This delay results in retroactive benefits which SSA pays in a lump-sum together with the current benefits. During the delay, DCFS pays for foster care expenses for the children. These costs become debts of the children, making DCFS a creditor. SSA policy permits Rep Payees to be reimbursed for these costs provided that prior authorization is obtained (POMS, Part O2, GN 00602.030B).

DCFS uses the payments for retroactive benefits to pay foster care costs for the current period and then reimburses itself for the costs of foster care paid while the SSI applications were being processed. Reimbursements are accomplished automatically through the CWT.

During the course of our audit, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) was enacted. This legislation amended the Social Security Act (Act) to require special handling of large payments of retroactive benefits. Specifically, the law requires that SSI payments which exceed six times the monthly Federal benefit rate plus any State supplementation be deposited in dedicated accounts in a financial institution (section 1631(a) of the Act). The Act and implementing regulations limit the use of these payments to a list of expenses related to the children's impairment(s) (20 CFR, section 416.640e).

SC0 PE

Our audit was conducted in accordance with generally accepted government auditing standards. The objective was threefold. First, we determined whether DCFS implemented adequate procedures and controls to account for Social Security benefits received and disbursements made on behalf of children in its care. Second, we determined if DCFS credited the children with interestearned on their unspent funds. Third, we determined the extent of DCFS' compliance with laws and regulations regarding dedicated accounts for large payments of retroactive SSI benefits and retroactive reimbursement for foster care costs.

We reviewed DCFS' operating procedures related to recording receipts and disbursing funds for children in foster care who received Social Security benefits. We tested the procedures by tracing several benefit payments from SSA's records to the County's records for the period January 1995 through June 1996. We also traced selected foster care and other payments through the County's disbursement process for the same period. We limited our review of internal controls to those necessary to assure ourselves that receipts and disbursements were accurately recorded.

We held discussions with officials from the County's Department of the Auditor Controller, the Department of the Treasurer and Tax Collector, and DCFS. We also spoke with regional SSA officials in San Francisco, California, and staffat the field office in Pasadena, California. In addition, we obtained legal opinions from the Office of the Counsel to the Inspector General concerning the payment of interest on the children's funds and the requirement to establish dedicated accounts for large retroactive payments. Our calculation of interest earned on the children's funds was based on the ending monthly balances for the children's trust funds and on actual monthly interest rates earned by the County's General Fund for the period September 1996 through August 1997.

RESULTS OF AUDIT

Our review disclosed that DCFS had implemented adequate procedures and controls over the recording of Social Security payments received and disbursements made on behalf of children in its care. However, we found that DCFS was not complying with laws and regulations related to paying interest on the children's funds. In addition, DCFS did not obtain required authorization before receiving retroactive reimbursement as Rep Payee for foster care costs. Finally, DCFS had notes tablished dedicated accounts for certain retroactive payments.

Interest Earned on Children's Funds

DCFS did not credit the children with interest that was earned on their Social Security funds. DCFS officials stated they were unaware of investment requirements. None the less, the County did invest and earn interest on these funds. Since the funds belonged to the children, the interest also be longed to them and should have been added to their accounts.

The County held a significant amount of money in trust for children receiving Social Security benefits. The month ly balance during the period September 1996 through August 1997 averaged approximately \$1.6 million. During this 12-month period, we calculated that the amount of interest earned on these funds was about \$72,000. We calculated this amount by summing month ly interest based on the actual month ly balances and earned interest rates reported by the County.

Dedicated Accounts

DCFS was not timely in establishing dedicated accounts for large retroactive payments exceeding six times the monthly SSI/Social Security payment rate as required by the Act. In a letter to SSA dated October 23, 1997, DCFS officials stated they believed that their accounting system complied with the intent of the new legislation. The letter reasoned that the legislation was directed toward individual Rep Payees rather than institutions. It also argued that DCFS' accounting system provided as much protection against the misuse of funds as would be provided under the law by a financial institution.

Although we found that the controls over the receipt and disbursement of children's funds were adequate, the Act requires that large payments subject to section 1631(a) of the Act be made to dedicated accounts in a financial institution. Also, the Act does not exempt government entities from this requirement.

As a result of m is interpreting the law, DCFS used normal cash processing procedures for 15 payments received during the period August 22, 1996, through September 30, 1997. The 15 payments, totaling \$110,660, should have been deposited into dedicated accounts.

Subsequent to our field work, DCFS reversed its position and opened a dedicated account with a commercial bank. DCFS supplied SSA with the information needed to deposit large retroactive payments to that account. DCFS also agreed to deposit into the dedicated account the 15 payments which we identified during our field work. Therefore, we are not making a recommendation concerning this issue.

Re troactive Reim bursement for Foster Care Costs

DCFS' method of receiving reimbursement as Rep Payee for prior foster care costs from payments of retroactive benefits did not comply with SSA policy. As previously described, DCFS automatically reimbursed itself retroactively for foster care costs through the CWT system. However, DCFS did not obtain prior authorization from SSA for the reimbursements as required.

CONCLUSIONS AND RECOMMENDATIONS

DCFS had implemented adequate procedures and controls to account for Social Security payments received and disbursements made on behalf of children in its care. However, we noted two issues involving noncompliance with laws and regulations. First, DCFS did not credit the children with interest earned on their funds. Second, DCFS used SSI benefits to reimburse itself retroactively for foster care costs with out obtaining prior approval from SSA.

We recommend that SSA:

- Direct DCFS to credit interest earned (\$72,000 for the 12-month period ended August 1997) on children's Social Security benefits to those children's accounts.
- 2. Direct DCFS to comply with the policy requirement for Rep Payees to obtain authorization from SSA before receiving retroactive reimbursement for foster care costs.

AGENCY COMMENTS

SSA agreed with our recommendations. However, it expressed concern about the accuracy of the method we used to calculate the amount of interest that should be credited to the children's accounts. Therefore, SSA stated that it will determine a more appropriate method before advising DCFS on the distribution of the interest. (See Appendix A for the full text of SSA's comments.)

O IG RESPONSE

We agree. Before DCFS can credit interest to the children's funds, a more accurate method to calculate that interest is needed. Our calculation was simply an estimate to illustrate the amount of interest earned during a 1-year period. Therefore, we chose the expedient method of using monthly balances in the collective account.

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A more appropriate method is for DCFS to base its calculations on actual daily balances in each child's account and the rates earned on the County's investments. Such a calculation would provide the actual amount of interest the County earned on the children's money.

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APPENDICES

SSA'S COMMENTS

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